

PROOF OF RECOVERY ACT'S EFFICACY SEEN IN THIRD QUARTER GDP FIGURES

KEY ECONOMIC STATISTICS

REAL GDP GROWTH
+3.5%
Q3 2009

NEW HOME SALES
402,000 -3.6%
September 2009

S&P/CASE-SHILLER HOME PRICE INDEX
-11.4%
Percent change, Aug 2008-Aug 2009

CONSUMER CONFIDENCE
47.7 -5.7 pts
October 2009

PERSONAL SAVINGS RATE
3.3% +0.5 ppts
October 2009

THIS WEEK

Tue, November 3
FOMC Meeting
October 2009

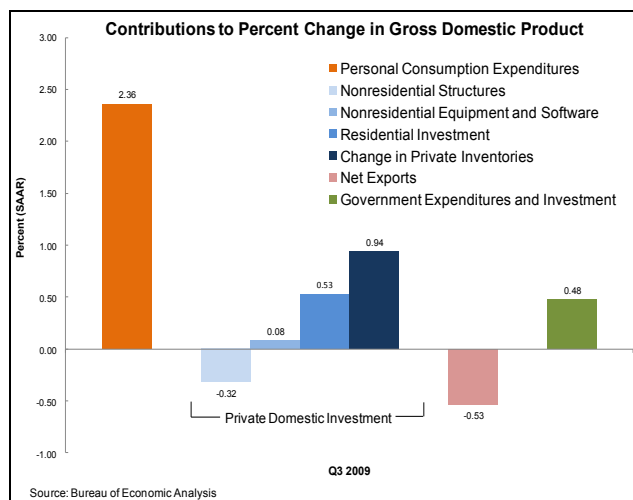
Motor Vehicle Sales
October 2009

Wed, November 4
ISM Non-Manufacturing Index
October 2009

Fri, November 6
Employment Situation
October 2009

JEC HEARING
The Employment Situation:
October 2009
106 Dirksen, 9:30 am

GDP grows by 3.5 percent in third quarter. The Bureau of Economic Analysis (BEA) released its advance estimate of real gross domestic product for the third quarter of 2009, showing that inflation-adjusted output grew at an annual rate of 3.5 percent. This is the first increase in real GDP since the second quarter of 2008. This increase in real GDP reflects positive contributions from housing, government spending, and especially consumption. (See Chart) Consumption rose by 3.4 percent in the third quarter and contributed 2.4 percentage points to the rise in third quarter GDP, mostly from sales of motor vehicles and parts. In fact, spending on motor vehicles and parts contributed to almost half the 3.5 percentage increase in GDP (1.66 percentage points) through consumers' purchase of new motor vehicles as well as the payments to dealers under "cash for clunkers." Housing, or residential fixed investment, contributed 0.53 percentage points to GDP this quarter. This is the first time since the fourth quarter of 2005 that residential fixed investment boosted GDP. Federal government consumption and investment contributed 0.62 percentage points to GDP, but state and local government expenditures and investments declined slightly. Total government expenditure and investment contributed 0.48 percentage points to GDP. Additionally, while businesses continued to draw down inventories, the rate declined substantially from the second quarter. Inventories contributed almost one percentage point to GDP in the third quarter. Although exports rose this quarter, imports rose by a larger amount. Net exports subtracted 0.53 from GDP. The increase in both exports and imports this quarter is a positive signal of a rebound in global trade.



New orders for durable goods rise. New orders for manufactured durable goods rose 1.0 percent to \$165.7 billion in September, consistent with the increase in durable goods consumption reported in the third quarter GDP advance release.

This is the second increase in the past three months and reverses a 2.6 percent decline in August. Most of the rise in durable goods orders can be attributed to an increase in machinery orders. Excluding transportation, new orders on manufactured durable goods rose 0.9 percent, indicating that the rise in durable goods orders is no longer tied to the "cash for clunkers" rebate. The third-quarter GDP numbers reflect this broader increase in demand; excluding sales of motor vehicles and parts, real GDP increased 1.9 percent in the third quarter versus a decrease of 0.9 percent in the second quarter.

Sales of single-family homes decline, but prices rise. Sales of single-family homes declined by 3.6 percent in September, but were up over 10 percent for the third quarter of 2009. However, the large number of vacant housing units (14.5 percent of total housing stock) indicates that a large overhang on unsold houses will affect incentives to construct new housing. At last week's JEC hearing, Dr. Karen Dynan testified that a strong rebound in construction seems unlikely. The S&P/Case-Shiller Home Price Index (Composite 20, seasonally adjusted) rose in August for the third straight month, indicating that prices in the housing market appear to be stabilizing. However, the S&P/Case-Shiller Home Price Index is still more than 11 percent lower than this time last year.